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BEFORE THE

POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

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| PERIODIC REPORTING<br>(PROPOSAL THREE) | Docket No. RM2015-11 |

**RESPONSES OF THE UNITED STATES POSTAL SERVICE**
**TO QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(July 31, 2015)

The United States Postal Service hereby provides its responses to Questions 1-4 of Chairman's Information Request No. 1, issued July 21, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
July 31, 2015

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

**1.** The Postal Service states that "a portion of the letter Mail Exit Points (MEPs) would be identified as eligible for sampling digitally." *Id.* at 3.

a. Please provide the criteria used to determine which MEPs will be transitioned to digital sampling.

b. Please provide the percentage of the total number of mail pieces that are currently sampled (using the manual methodology) that would be digitally sampled under the proposal.

c. Please provide the number, and the percentage, of MEPs that will be converted to digital sampling.

**RESPONSE:**

a. The criteria are:

   i. An average of 10,000+ pieces run on Second Pass Delivery Point Sequence or DPS (Operation 919) per day—obtained from End of Run data
   ii. Consistently run on DPS every month (for 13 months)
   iii. Cannot currently be tested in the same MEP as another ZIP Code with less than 10,000 pieces DPS
   iv. Current MEP where ZIP code is tested must be Letters only
   v. Current MEP where ZIP code is tested must include DPS Letters
   vi. Current MEP where ZIP code is tested must be for the Entire Office or City Carriers (not just Rural Carriers, Box Section, or Caller/Firm)

b. The digital project will replace manual sampling for 32 percent of total expanded mailpiece volume. This metric includes all mail shape volume (letters, flats, and parcels).

c. 5,973 ZIP Codes will be converted to digital testing as of FY16 quarter 1. This affects approximately 5,300 current MEPs, which is 9.07 percent of the total current MEPs (58,414).

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**2.** The Postal Service states that digital sampling will occur at "predefined sampling intervals." *Id*. at 5, n.1.

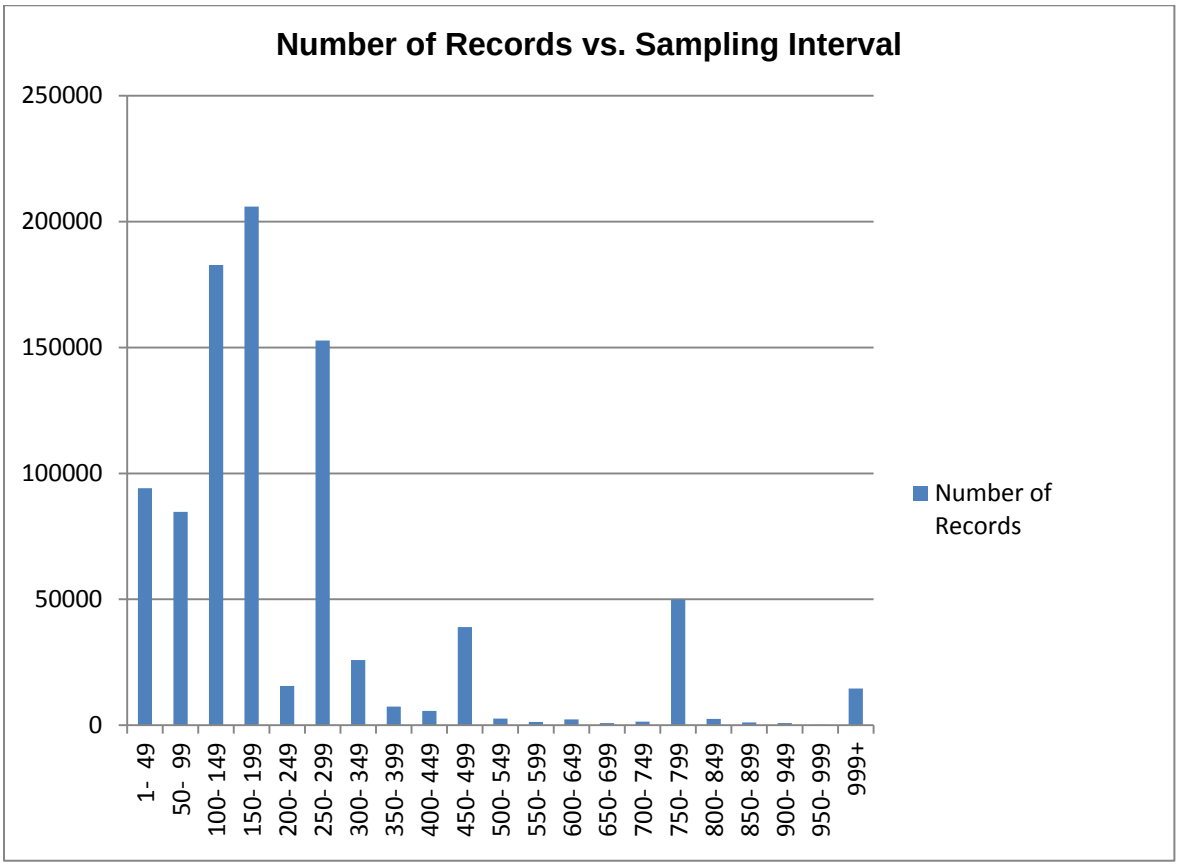
a. Please provide the frequency of mail sampling intervals under the existing manual methodology.

b. Please provide the volume (number of mail pieces) of mail that is sampled under the existing manual methodology.

c. Please confirm that the sampling intervals currently applied by data collectors to physical mail pieces are the same as the sampling intervals proposed to be applied by data collectors to digital images of mail pieces. If not confirmed, please explain the differences and the rationale for the change.

**RESPONSE:**

a. The frequency of mail sampling intervals under the existing manual methodology for DPS mail that would have been converted to digital for FY2015 quarter 3 is shown in the following chart.




b. The number of DPS mailpieces sampled that would have been converted to digital in FY 2015 quarter 3 was 891,267. This expands to 12 billion letters for the quarter.

c. Not confirmed. The sampling intervals currently applied by data collectors during tests are highly correlated with time available to sample. In the digital environment, time is not an issue; the Postal Service will aim to collect 175 mailpieces per test, which is the same average number of DPS mailpieces currently collected during live sampling. For FY 2015 quarter 3, this would have resulted in skip intervals ranging from 57 to 632. The extremes on both ends of the chart shown above will be eliminated.

Overall, the result is to sample the same number of pieces that are currently sampled, but with a tighter range of sampling intervals through all the mail. The Postal Service is sensitive to the directives given in Order No. 650 (Docket No. RM2010-10, January 14, 2011) and Order No. 396 (Docket No. RM2009-5, January 21, 2010) about not reducing the ODIS-RPW sample because of its use in providing disaggregated data throughout the organization.

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**3.** The Postal Service states that it will use "DPS mail weight and shape information from live mail ODIS-RPW tests" as a distribution key for the weight and shape information not provided by digital images. *Id*. at 5.

a. Please confirm that the proposed distribution key is representative of the mail mix at the MEPs that will be converted to digital sampling under this proposal. If not confirmed, please provide the rationale for using a non-representative sample.

b. If confirmed, please explain how the Postal Service determined that the distribution key is (and will continue to remain) representative of the mail mix at MEPs that will be converted to digital sampling.

**RESPONSE:**

a. Confirmed.

b. The mail that will be tested digitally and the mail that will be tested live both come from the same population. The subsampling method of selecting mailpieces for the sampled MEP is the same as well: systematic random sampling. For live testing, data collectors will continue to use container and mailpiece skip subsampling procedures. For digital testing, only mailpiece skip subsampling will be used. Either way, the expected value of the estimate is unbiased in large samples, and therefore in expectation will have the same mail mix. Because the live testing will always continue, any changes in the population will be detected in live sampling and then correctly applied to the digital estimates for shape and weight determination.

The following tables also illustrate that there is not a systemic difference between the mail sampled live and the mail that will be sampled

digitally. Below, tables 1-3 break down Table 1 from page 7 of the original filing by quarter. These exhibit expected variation: in some quarters, the live mail card revenue ratio is lower than the digital ratio, in some cases they are equal, and in some cases the live mail ratio is higher. Although not shown here, the volume ratios exhibit the same behavior. Tables 4-6 below break down Table 3 provided in the original filing by quarter and by weight step for letters (cards are excluded from this analysis since the methodology is the same for digital and live sampling). In some instances, the digital weight is higher than the live weight; in some instances it is lower. This is to be expected due to sampling variation.

Table 1

**Percent of Revenue by Shape, Indicia, and Live vs. Digital Split – Quarter 4 FY14**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | Live | Digital | Live | Digital |
| **Card** | 4.6% | 4.9% | 2.6% | 2.4% |
| **Letter** | 95.4% | 95.1% | 97.4% | 97.6% |

Table 2

**Percent of Revenue by Shape, Indicia, and Live vs. Digital Split – Quarter 1 FY15**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | Live | Digital | Live | Digital |
| **Card** | 3.1% | 3.1% | 2.5% | 2.2% |
| **Letter** | 96.9% | 96.9% | 97.5% | 97.8% |

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Table 3

**Percent of Revenue by Shape, Indicia, and Live vs. Digital Split – Quarter 2 FY15**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | Live | Digital | Live | Digital |
| **Card** | 4.4% | 4.8% | 2.3% | 2.3% |
| **Letter** | 95.6% | 95.2% | 97.7% | 97.7% |

Table 4

**Ounces/Piece by Indicia and Live vs. Digital Split for letters – FY14 Quarter 4**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | Live | Digital | Live | Digital |
| 0 to 1 oz | 0.43 | 0.45 | 0.48 | 0.48 |
| 1 to 2 oz | 1.32 | 1.35 | 1.37 | 1.40 |
| 2 to 3 oz | 2.43 | 2.38 | 2.43 | 2.40 |
| 3 to 3.5 oz | 3.29 | 3.21 | 3.24 | 3.30 |

Table 5

**Ounces/Piece by Indicia and Live vs. Digital Split for letters – FY15 Quarter 1**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | **Live** | **Digital** | **Live** | **Digital** |
| 0 to 1 oz | 0.48 | 0.49 | 0.49 | 0.49 |
| 1 to 2 oz | 1.33 | 1.30 | 1.37 | 1.38 |
| 2 to 3 oz | 2.40 | 2.41 | 2.35 | 2.40 |
| 3 to 3.5 oz | 3.31 | 3.34 | 3.22 | 3.18 |

Table 6

**Ounces/Piece by Indicia and Live vs. Digital Split for letters – FY15 Quarter 2**

| | Stamps Indicia | | Meter Indicia | |
|---|---|---|---|---|
| | **Live** | **Digital** | **Live** | **Digital** |
| 0 to 1 oz | 0.44 | 0.46 | 0.47 | 0.47 |
| 1 to 2 oz | 1.31 | 1.32 | 1.38 | 1.38 |
| 2 to 3 oz | 2.38 | 2.38 | 2.43 | 2.39 |
| 3 to 3.5 oz | 3.23 | 3.26 | 3.22 | 3.32 |

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**4.** The proposal notes that cost savings emanate from the elimination of "travel time and on-site time for the data collectors". *Id*. at 5, n.1. Please provide an estimate of the total cost savings resulting from the proposal that identifies the estimated savings from the reduction in the number of data collectors separately from other sources of cost savings.

**RESPONSE:**

With an initial investment of $5 million, we expect to save up to $2 million per year in data collection costs. The savings will be achieved in the reduction of data collector workhours, including overtime and out of schedule time, and will allow us to reduce our reliance on cadre employees (*ad hoc* employees "borrowed" from other functions). There is no plan to reduce the number of data collectors with this proposal.